

Waterbury

# 1978 ANNUAL REPORT

AR21



# Slater Steel Industries Limited Highlights

| \$000's except per share data          | 1978     | 1977     | % Change |
|----------------------------------------|----------|----------|----------|
| Net sales                              | \$64,520 | \$55,724 | 16       |
| Net earnings before extraordinary item | 3,748    | 2,009    | 87       |
| Net earnings                           | 3,319    | 2,009    | 65       |
| Capital expenditures                   | 900      | 1,672    | (46)     |
| Depreciation                           | 2,216    | 2,119    | 5        |
| Working capital                        | 16,865   | 16,592   | 2        |
| Fixed assets—net                       | 23,905   | 25,650   | (7)      |
| Per common share data                  |          |          |          |
| Net earnings before extraordinary item | \$ 1.31  | \$ 0.63  | 108      |
| Net earnings                           | \$ 1.14  | \$ 0.63  | 81       |
| Dividends declared                     | \$ 0.32  | \$ 0.68  | (53)     |
| Shareholders' equity                   | \$17.02  | \$16.16  | 5        |

**Slater Steel Industries Limited** was incorporated in 1962 and includes two Divisions located in Hamilton, Ontario; Burlington Steel, a steelmaking operation founded in 1910, and Slater Products, a pole line hardware manufacturer, incorporated in 1917 as N. Slater Company, Ltd. Slater Steel Industries Limited also holds a 20.2% interest in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO), a major integrated steel pipe manufacturing company located in Regina, Sask.

**Burlington Steel** is a specialty mini-mill producing several grades of carbon and alloy steels from scrap in three electric furnaces. The molten product is continuously cast into billets and subsequently converted into a variety of sizes and shapes in bar form on a modern continuous rolling mill. The operation has a capacity of 250,000 tons per year of product output which is sold to the automotive, agricultural, construction and utility markets in both Canada and the U.S.A.

**Slater Products** is the largest pole line hardware manufacturer in Canada, producing more than 3,000 different items for the electrical transmission and communications markets. The manufacturing facility includes a broad range of material processing including forging, aluminum casting, pickling and galvanizing, stamping and forming, heat treating, welding, machining and wire forming. The 'Slater' product line is highly engineering oriented from the standpoint of design, quality evaluation and field service.

**Interprovincial Steel and Pipe Corporation Ltd.** produces steel by electric furnace refining, which is processed into coils of flat rolled skelp or sheet. The major portion of its output is converted into tubular pipe products, ranging in size from ½" to 80" diameter, at one of three manufacturing facilities located in Regina, Sask., Edmonton, Alta. and Port Moody, B.C. Production capacity is 400,000 tons per year of finished product, which includes high pressure line pipe for oil and gas transmission, water line pipe, oil well casing and tubing and hot rolled sheet for commercial application.

**Annual Meeting** The Annual Meeting of Shareholders will be held at 11:00 a.m. on Friday, July 14, 1978 in Meeting Room #1, Hamilton Place (McNab Street Entrance), Hamilton, Ontario.

Spiral weld "Arctic grade" pipe entering "cut-off" operation at pipe producing facilities of Interprovincial Steel & Pipe Corporation Ltd. in Regina, Saskatchewan.





## President's remarks

It is gratifying to have achieved a record sales level for your Company during Fiscal 78 representing an increase of 16% over the previous year. The major portion of this improvement was provided by greater sales volume and improved product mix for both operating Divisions. The Earnings were also encouraging, being 87% higher than the previous year prior to deductions for extraordinary items.

The past year has been a difficult one for the Canadian economy, particularly for the steel industry. During this period we have witnessed offshore steel being "dumped" into our markets and creation of a "trigger price" system to control steel imports into the United States. Despite these adverse conditions, we are pleased to have realized improved performance for the Company.

During the past three years, Burlington Steel has been developing manufacturing processes for the production of specialty steel grades. These products have been marketed on a gradual basis commensurate with proven success of quality reliability. We have been successful in breaking down the historic bias against the production of high quality steels through the continuous casting process, and as a result of this achievement these specialty steel grades made up one-third of our steel shipments for the year. The successful sale of these products in both the domestic and U.S. market has provided a more consistent production level and improved earnings for the Burlington Steel operation.

The record sales of Pole Line Hardware at Slater Products this past year was primarily influenced by increased activity on high voltage transmission projects and heavy demand in the communications market. However, pricing was severely constrained and did little to offset established cost increases for the manufacture of these commodities. As a result, our profit margins from this Division were below previously established levels.

In looking at the year ahead, we anticipate that the improved sales and profit performance achieved in Fiscal 78 will continue. Current projections show an increase of approximately 5% in steel demand in calendar 1978 over the previous year, and there is every indication of short term strengthening of the economy itself. There is, of course, uncertainty as to whether the trend will continue into 1979.

During Fiscal 79 we expect the favourable product mix at Burlington Steel

to continue to support our objective to achieve one-half of the Division's shipments in specialty steels. Acceptance of our steel bar products in a broad range of critical end uses has been achieved, and we have been especially successful in the production of high quality spring steels for a full range of suspension applications. Our ability to supply a much broader range of products to several different markets has minimized some of our past vulnerability.

Our emphasis on product diversification at Slater Products should begin to bear fruit during the coming year, thereby strengthening stability of output and improving earnings. We expect the increasing demand for EHV power transmission hardware to continue and plan to maintain our position as the major supplier of these proprietary commodities in Canada.

During the past year key managerial appointments were made in both Divisions. Mr. Ronald B. Wilson, formerly Vice-President, Administration & Finance for Slater Steel Industries Limited, was appointed Executive Vice-President of Burlington Steel. Mr. John H. Taylor, formerly President of Gries Reproductor Co. was appointed Vice-President-General Manager of Slater Products. Mr. Ronald T. Haine was appointed Director-Technical Services, accountable for Purchasing, Capital Expenditure Planning, Environmental Control Practices and related factors affecting both Divisions. These gentlemen bring many years of experience to the operating Divisions, and will provide considerable strength to our organization.

Interprovincial Steel and Pipe Corporation Ltd. continued to perform satisfactorily with active participation in Canadian pipe sales and a gradual strengthening of their marketing of hot rolled sheets for various commercial requirements. The demand for smaller diameter line pipe, as well as casing and tubing, was especially strong reaching record levels in some instances. Initiation of the Alaska Highway gas pipeline will provide the opportunity for a favourable increase in activity at IPSCO and current planning is being directed toward this goal.

Last year we referred to our purchasing agreement for the supply of pre-reduced iron ore pellets, a potential replacement for scrap as electric furnace charge stock. This agreement was reached in 1975 at a time when scrap prices were soaring and scrap availability was diminishing. Due to the overall recession in the steel industry, scrap costs dropped dramatically making it

impractical to use pellets as alternate charge material. After several months of negotiation, we have agreed to a quarterly penalty payment, in lieu of taking product, commencing January 1, 1978 and terminating December 31, 1980. This settlement provides us with the option of accepting pre-reduced pellets at any time through 1980 should such action become feasible based on the price and availability of scrap.

As reported in the Fiscal 78 third quarter statement, our Board of Directors elected to write off the \$429,000 expenditure for market and engineering planning for a new mini-rod mill. Due to the existing developments in the steel industry on a global basis, and the overall weakening of markets, immediate implementation of this project could not be justified. However, this study provides valuable criteria for establishment of a specialty mini-mill at any time in the future.

On December 8, 1977 Mr. Ralph W. Cooper, who was elected a Director of the predecessor N. Slater Company, Ltd. in 1952, resigned as a Director of the Company and as a member of the Executive Committee. Mr. Cooper has made a valuable contribution to the business affairs of your Company during his many years as a Board member, and his interest and advice will be missed by the Directors and Officers of the Company.

Slater employees continue to play a key role in the excellent performance of the Company during the past year. Their efforts, together with the support of shareholders, customers and suppliers, added to the successful results of your Company in Fiscal 78 and are greatly appreciated.

*Bruce M. Hamilton*

Bruce M. Hamilton, President.







The technological expertise of our Metallurgical, Melting and Rolling personnel has gained entry to Special Bar and Alloy markets, including automotive leaf springs, pictured above.

Canadian Steel Service Centres are a major market for rolled steel products. They process and distribute in excess of sixteen percent of the national steel production to consumers.





AR21

# Interim Report

September 30, 1978

*File*

**Slater Steel  
Industries Limited**

681 KING STREET WEST, HAMILTON, ONTARIO

**Slater Steel  
Industries Limited**



# SLATER STEEL INDUSTRIES LIMITED

## Consolidated Statement of Earnings

(In thousands of dollars)  
(Unaudited)

|                                                                                                        | SIX MONTHS TO<br>SEPTEMBER 30 |                                   | QUARTER ENDED<br>SEPTEMBER 30 |                                   |
|--------------------------------------------------------------------------------------------------------|-------------------------------|-----------------------------------|-------------------------------|-----------------------------------|
|                                                                                                        | 1978                          | 1977                              | 1978                          | 1977                              |
| Net Sales.....                                                                                         | \$ 43,030                     | Restated<br>(Note 1)<br>\$ 29,022 | \$ 19,389                     | Restated<br>(Note 1)<br>\$ 15,062 |
| Cost of sales, excluding the following items.....                                                      | 36,399                        | 26,982                            | 16,149                        | 13,961                            |
| Depreciation .....                                                                                     | 1,200                         | 1,110                             | 599                           | 549                               |
| Interest on long term debt.....                                                                        | 407                           | 486                               | 193                           | 243                               |
| Other interest .....                                                                                   | 63                            | 155                               | 38                            | 69                                |
| Income taxes .....                                                                                     | 38,069                        | 28,733                            | 16,979                        | 14,822                            |
| Earnings before equity in earnings of Interprovincial<br>Steel and Pipe Corporation Ltd. (IPSCO) ..... | 2,903                         | 239                               | 2,410                         | 240                               |
| Equity in earnings of IPSCO (Note 2) .....                                                             | 1,539                         | 707                               | 845                           | 490                               |
| Net earnings for the period .....                                                                      | \$ 4,442                      | \$ 946                            | \$ 2,255                      | \$ 665                            |
| Net earnings per common share .....                                                                    | \$ 1.65                       | \$ 0.29                           | \$ 0.84                       | \$ 0.22                           |

## Consolidated Statement of Changes in Financial Position

(In thousands of dollars)  
(Unaudited)

|                                                   | SIX MONTHS TO<br>SEPTEMBER 30 |        | SIX MONTHS TO<br>SEPTEMBER 30 |      |
|---------------------------------------------------|-------------------------------|--------|-------------------------------|------|
|                                                   | 1978                          | 1977   | 1978                          | 1977 |
| Operations                                        |                               |        |                               |      |
| Earnings before equity in earnings of IPSCO ..... | \$ 2,903                      | \$ 239 |                               |      |
| Depreciation .....                                | 1,200                         | 1,110  |                               |      |
| Deferred income taxes .....                       | (204)                         | —      |                               |      |
| Dividends received .....                          | 282                           | 282    |                               |      |
| Funds from operations .....                       | 4,181                         | 1,631  |                               |      |
| Decrease in other assets .....                    | 41                            | 42     |                               |      |
|                                                   | 4,222                         | 1,673  |                               |      |
| USE OF FUNDS                                      |                               |        |                               |      |
| Net additions to fixed assets .....               | 452                           | 333    |                               |      |
| Reduction of long term debt .....                 | 2,106                         | 12     |                               |      |
| Retirement of preference shares .....             | 39                            | 85     |                               |      |
| Dividends .....                                   | 694                           | 597    |                               |      |
|                                                   | 3,291                         | 1,027  |                               |      |
| INCREASE IN WORKING CAPITAL .....                 | \$ 931                        | \$ 646 |                               |      |

Note 1. Earnings in the 1977 comparative period have been increased by \$50,000 per quarter to reflect that portion of the statutory 3% inventory allowance applicable to that period.

2. Equity in earnings of IPSCO is for the period ended August 31, 1978 based on the latest published information issued by IPSCO.

## TO OUR SHAREHOLDERS:

Your Directors are pleased to submit the unaudited Consolidated Statement of Earnings and unaudited Consolidated Statement of Changes in Financial Position for the six months ended September 30, 1978 with results for the most recent quarter and comparable figures for the previous year.

Sales for the first half of Fiscal 1979 were \$43,030,000, an increase of 48% over the previous year, while sales in the September quarter, at \$19,389,000, were up 29% over sales in the same quarter last year. As expected, shipments in the second quarter of Fiscal 1979 were down 22% from the record sales levels achieved in the preceding quarter with shipments curtailed by our own and our customers' regular summer shutdowns.

Earnings for the first six months of Fiscal 1979 were \$4,442,000, or \$1.65 per common share, compared to a re-stated \$46,000, or 29¢ per share a year earlier. Earnings in the September quarter were better than expected, with good operating results from both Burlington Steel and Slater Products Divisions and an impressive contribution from our equity in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO). This most recent quarter reflected earnings of \$2,255,000, or 84¢ per common share, compared to a re-stated \$665,000, or 22¢ per share in last year's comparable quarter.

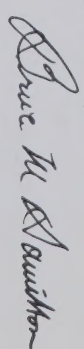
A fourth rolling mill shift at the Burlington Steel Division was implemented at the beginning of September but the effect of the additional production output will not reflect through increased sales until the December quarter. With settlement of railroad disputes in Eastern Canada orders for grinding balls have risen significantly, necessitating increased scheduling in the Ball Shop during September. Sales and earnings for the Division are substantially improved over the results of the previous two years with an improved product mix emphasizing specialty steel grades. Our product line has changed significantly, eliminating the previous heavy reliance on construction related bar products while allowing the Division greater diversification and a broader market base. During the September quarter this Division rolled its last bar angle and will be eliminating channels from its rolling schedule during the next quarter. These products are replaced mainly by round and flat bar in carbon and alloy grades destined for the automotive, forging and specialty steel processors.

Slater Products Division shipments in this latest quarter were 15% below the record levels of the previous quarter, but were 27% higher than the comparative quarter in 1977. A larger portion of the Division's sales are now made up of EHV (Extra High Voltage) hardware which represented 43% of the Division's shipments during the first six months of Fiscal 1979.

The published results of Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) for their latest quarter reflect record sales levels with earnings 65% above last year's comparative quarter. The Slater Steel equity of \$1,539,000 in IPSCO's earnings for our first six months, which is shown in the Consolidated Statement of Earnings, includes dividends received of \$282,000.

Earnings for our third quarter ending December 31, 1978 are expected to be comparable to the results of the first two quarters of Fiscal 1979. Labour contracts with the United Steelworkers of America expire on December 31, 1978 for the Burlington Steel Division and on January 31, 1979 for the Slater Products Division; consequently, the results for the fourth quarter ending March 31, 1979 will be impacted by the result of labour negotiations.

Your Directors are pleased to report that operating results have been sustained at favourable levels through the last four quarters and expect this trend to continue through the balance of Fiscal 1979 as further emphasis is placed on improvements in the product mix of both operating divisions.

  
B. M. Hamilton  
President

October 31, 1978  
Hamilton, Ontario



# Burlington Steel

During the past fiscal year, Burlington Steel has continued to develop its capabilities in producing and rolling more sophisticated steels for the special bar quality markets. This has contributed to a satisfactory performance in Fiscal 78 with a record sales level, reflecting the improved product value of our shipments. The international steel markets, on the other hand, have not been strong resulting in many overseas mills operating considerably below capacity. In contrast, the Canadian steel industry operated at reasonably good levels, comparable to that of the previous year. Steel market demands varied considerably, with the greatest strength continuing to be in the consumer goods sector. It was to this area that Burlington Steel directed its sales thrust, resulting in improved penetration of the specialty steel markets for carbon and alloy bar products. At the same time, earnings for the year showed a significant improvement over the Fiscal 77 performance. The order backlog position at year end was at a strong level and we anticipate this favourable trend to continue for the first half of Fiscal 79.

**Marketing** During Fiscal 78 the construction, mining and farm implement markets continued to be depressed which affected sales of both Reinforcing bar and Merchant products and resulted in a continuation of the weak sales of these commodities experienced in Fiscal 77. There was, however, a strengthening in the demand for these product lines toward year end, which shows every indication of holding for several months in the coming year. This trend is not consistent with the general state of the economy and causes some uncertainty as to the long term continued strengthening of these markets. While bar product sales through Service Centre operations remained soft in the early part of the year, strengthening did occur resulting in a considerable pickup in sales in both the domestic and export markets.

Sales of special bar and alloy grades increased by 300% during Fiscal 78 over the previous year. A major portion of these steels were directed to automotive and truck manufacturers which represented strong activity and with it a heavy demand for several of the new product lines developed at Burlington Steel over the past several years. Our participation in these markets was gained by the excellent quality of our steels and the service we were able to

render. Particular attention was given to our production of alloy spring steels which represents a principal product line to our Mill.

**Manufacturing** During Fiscal 78 raw steel production increased to 197,000 tons, a 5% higher level than the previous year despite a reduction in billet inventory of approximately 10,000 tons. Melt Shop performance was excellent, achieving a productivity improvement of 18% over the previous year, even though the amount of alloy and specialty grades melted was tripled.

Rolling Mill production, at 185,600 tons, represents a 15% higher level of output than was produced during Fiscal 77. Although the number of different sections being rolled increased during the year to accommodate our customer requirements, a productivity improvement of 8% was obtained. One notable achievement was a significant reduction in mechanical and electrical delays on the Mill as a result of our efficient and controlled preventive maintenance program.

Capital additions were kept to a minimum during the fiscal year reflecting the low level of earnings in Fiscal 77. Major spending was directed to specific areas in the plant to enhance quality control, safety and cost reduction and further minor modifications were made in the Ball Shop.

Manufacturing costs continue to increase at significant rates, particularly in the area of energy such as natural gas, oil and hydro. Scrap prices averaged at \$55.00 per net ton for the year due to the limited demand for this raw material. However, price strengthening of scrap occurred at year end commensurate with the general pick up in the North American steel industry. Emphasis continued on a profit improvement program in order to reduce our unit cost per ton. Results were significant and cost control techniques were developed in order to perpetuate these reductions.

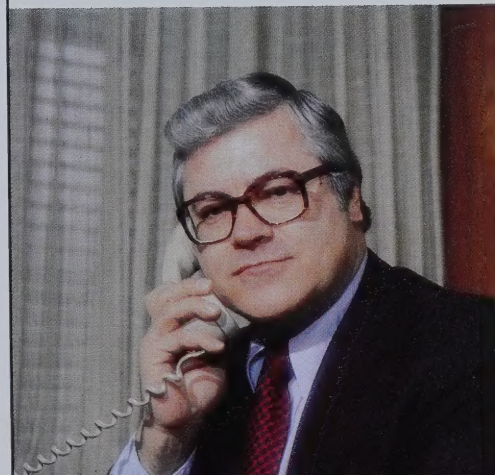
**People** The uncertain business climate for our product lines at the beginning of the year dissipated as the year progressed and our people developed a team effort to meet the challenges of developing and selling our unique techniques in steelmaking. This effort was the major contributor to the recovery of earnings in this Division and all of our employees are to be commended for their participation in helping with these successes.

Ronald B. Wilson, Executive Vice President

Our program of regular communication with our employees was continued and strengthened during this past year. Regular meetings with both the Union Executive and with the people in the mill were maintained in order to discuss matters of mutual interest.

Our safety record improved again during Fiscal 78. The lost time accident frequency rate remains among the better performance rates for heavy industry in Ontario. Management recognizes the input of ideas and opinion that our people can offer and it is our intent to continue to foster and improve this channel of communication for better understanding and resolution of our company's objectives and requirements.

We feel that the stage is set for a continuation of the progress and improvements in performance achieved in Fiscal 78. While there is no assurance that the domestic demand for steel will strengthen, we are better prepared to maintain stability of performance than at any time in the past. Burlington Steel has now become a reliable specialty mini-mill and has demonstrated its capability to provide a broad range of carbon and alloy steel bars to a large number of market applications. We have capitalized on our strengths and will continue to exploit this advantage in future marketing strategy to maintain stable operating levels and optimum profitability.





## Slater Products

Slater Products is the largest manufacturer of Pole Line Hardware used in the electric transmission and communication field in Canada. The Division represents competent design and industrial engineering technologies combined with many years of manufacturing experience providing dependable product and service to its customers in Canada and throughout the world.

This Division has been a major designer and supplier of proprietary high voltage (EHV) transmission line hardware for newly developed projects for provincial utilities. Construction work in this area has expanded in the past year resulting in increased tendering and participation of this product segment and thus contributing to our record level of sales in Fiscal 78.

During the year, organizational changes were implemented, including the appointment of a Vice-President-General Manager of the Division. We have developed an experienced team of managers organized to obtain a growing market share of products for which we have the experience and know-how to provide future stable growth of this Division.

**Marketing** Sales for Fiscal 78 rose 16% from the previous year mainly because of the increasing construction of extra high voltage systems across the country. This sales increase is primarily a reflection of additional volume and does not represent any inflationary impact.

Our participation in standard hardware for the power utility market dropped against historic trends due to intense competitive pricing experienced, particularly on annual tenders. Conversely, sales of standard hardware to the communication market continued to strengthen as a result of strong demand as did sales of our 'Preformed' line through increased demand for 'Preformed' Spacers and Armour Grip Suspension units.

The O.E.M. segment of our business, which includes commercial sales of castings, stampings and galvanizing services, was down from last year as a result of more selective bidding in the market place.

Our new line of Marine Hardware has now been placed with distributors and production facilities set up in preparation for participation in the Canadian market in the coming season. We will be proceeding with this new line on a gradual basis to gain reliability and acceptance in the market place.

Export sales were off from last year due to pricing constraints and reduced power construction in international markets. We will continue to pursue and examine our presence in this area to determine the feasibility and best approach for future opportunity of our products in Export markets.

**Manufacturing** In order to ensure that the Division continues to provide reliability and quality of service to our customers, specific areas in manufacturing have been designated for particular attention:

- (1) We are emphasizing strong Industrial Engineering activity to ensure that work being placed on the factory will be co-ordinated and planned to optimize efficiencies in manufacturing methods, tooling and operating standards.
- (2) E.D.P. systems control will monitor production activity to facilitate scheduling and ensure delivery of our products to customers on time.
- (3) Emphasis on plant capital equipment expenditures will be consistent with anticipated growth opportunities, as well as improved operating efficiencies.

**Engineering** Future transmission line demands for higher voltages will continue to require the superior engineering technologies of Slater Products.

Over recent years our people have designed and developed key components in powerline transmission including Spacer Dampers and Suspension Assemblies vital to energy related applications.

Our Engineering Department, together with Marketing, is actively identifying new consumer oriented products with promising market potential related to our manufacturing capabilities. This broadening of our market interest is required to counteract the historic wide swings experienced in the power utility markets.

**Future Outlook** Canada has the second highest per capita use of energy in the world exceeded only by the United States. The Federal Government is being urged to include a statement in its National Energy Policy recognizing the potential for electricity to relieve anticipated demands for oil and gas.

Currently, electricity supplies 16% of the total energy consumed in Canada. The remaining 84% of the energy consumed is supplied by oil and gas, which are considered to be a depleting source.

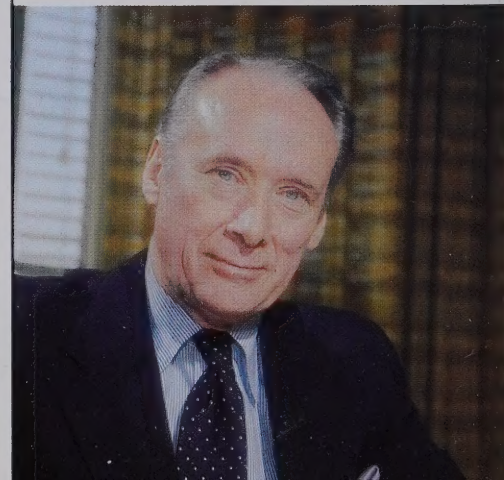
John H. Taylor, Vice President-General Manager

Present energy studies suggest that the use of electricity will continue to grow more rapidly than other sources of energy. Because of the rising cost of oil and gas, triggered by the increasing price of import oil, the cost of electricity is becoming a relative factor, making possible the gradual growth of electricity and a proportionate increase in the current 16% consumption. Such areas as heating and cooling, the use of more efficient equipment, and the electrification of mass ground transit will be involved in this increased use of electricity.

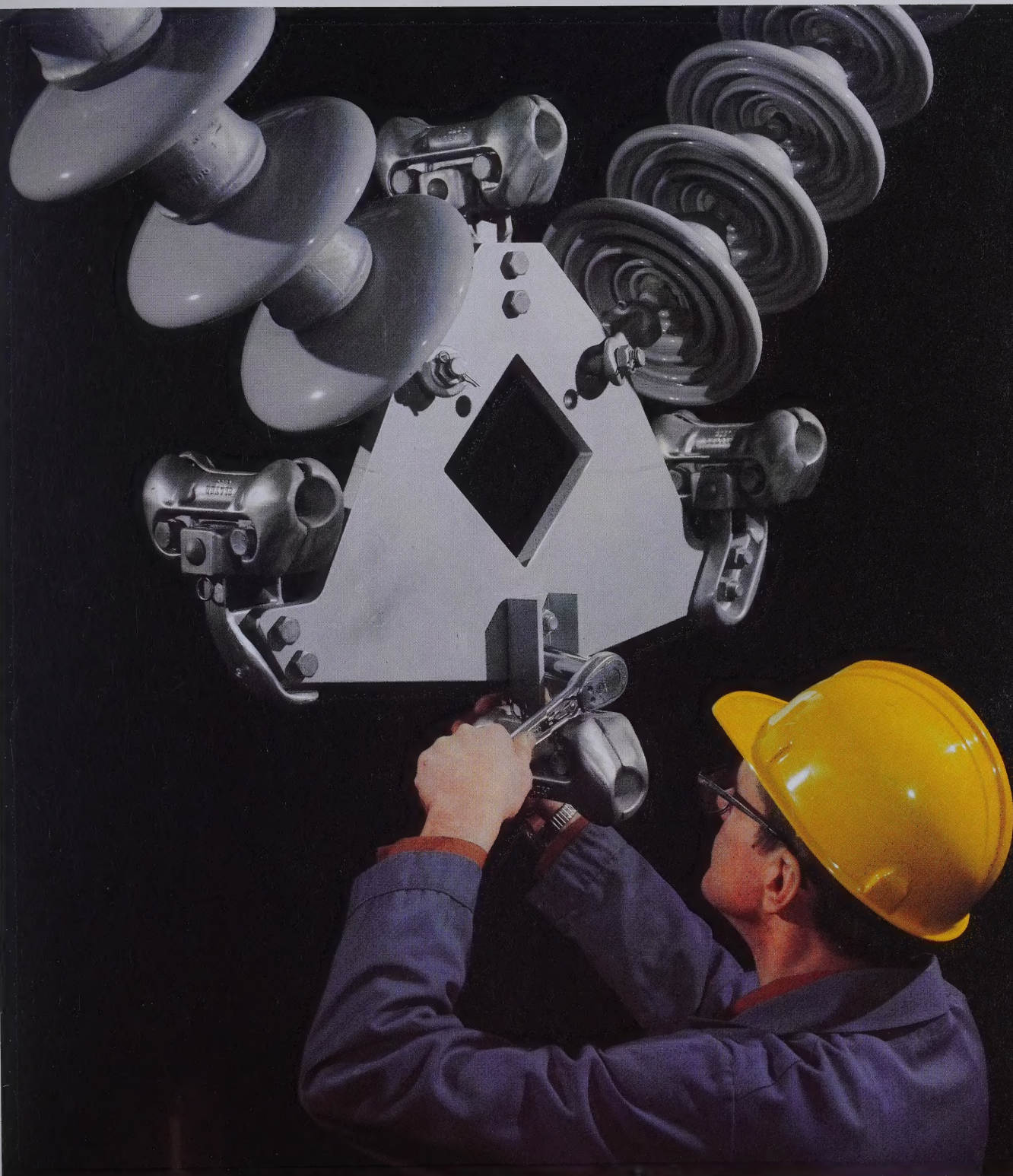
Extensive studies are currently underway in many provinces, including special studies to accelerate the development of the remaining water power to produce electricity for the strong regional and national power networks in Canada.

The Federal Government is also being urged to provide financial assistance for the construction of new provincial and national inter-connections to offer lower energy cost and conservation of non-renewable energy sources.

Consistent with the above, a study of the plans of the Canadian utilities for the next several years indicates a substantial increase in the requirement for extra high voltage hardware. Slater Products is taking steps to ensure that this Division is capable of handling the expected additional volume of this critical product line.

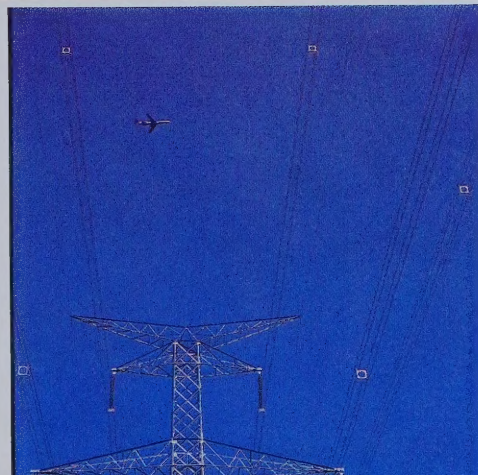






Final adjustments being made to a four conductor suspension assembly required for future high capacity EHV transmission lines. This "Slater" designed Apex-Up suspension system provides savings in space requirements, combined with improved electrical performance.

The Slater Products Spacer-Dampers shown on a recently installed double circuit 500kv transmission line in Southern Ontario are an example of our continued efforts and success in vibration suppression.





## Personnel

This Corporate Department develops policies and provides service to the Divisions in such areas as organization development, compensation, employee benefits, public relations and labour relations. In the Divisions, Industrial Relations Managers function at the department head level and provide day-to-day services to the General Managers, their managers and employees in general, on all matters of personnel and labour relations.

**Employment Costs** The average number of salaried and hourly paid employees on the payroll during the Fiscal 78 year was 1,043, which compares with 1,103 for the previous fiscal year. A total of \$16,255,000 in wages and salaries was paid for work and an additional \$1,908,500 was paid for vacation pay and holidays. Group Insurance Plan premiums in the amount of \$723,000 were paid and Company contributions to pension plans totalled \$1,493,000. The sum of \$1,187,000 was paid to government programs (Canada/Quebec pension plans, Unemployment Insurance, Workmen's Compensation and O.H.I.P.).

**Safety** Ongoing attention and concern to safety by all employees produced encouraging results. Burlington Steel had the lowest lost time accident frequency for steel companies in its Accident Prevention Association grouping for the second consecutive year, which was also the lowest frequency since records have been maintained. Slater Products lost time accident frequency continued to be well under the average for its grouping.

**Organization Development** Developing people for greater responsibility has been an ongoing objective of the Company's management and this has been achieved by expansion of job function, on the job coaching, and specific external training where appropriate. This was evident in Fiscal 78 when an in depth review of organization structuring was conducted in conjunction with the Company's medium range marketing, manufacturing and financial plans. Certain realignment was implemented in the middle and senior

management level which resulted in internal promotion of many of our key personnel.

**Collective Agreements** The labour contracts with the United Steelworkers of America entered their third and final year. The Burlington Steel agreement expires December 31, 1978 and the Slater Products contract terminates January 31, 1979.

**Public Relations** Our efforts have been directed to enhancing the identity of Slater Steel Industries Limited and its Divisions in the local, business and financial communities by emphasizing our strengths in products and people, community involvement and prospects for the future. This is an ongoing project requiring constant attention by our managers and executives through aggressive and credible communication with the media, government representatives, financial analysts, business people, academics, students and the community at large.

## Administration and Financial Review

**Sales and Earnings** Consolidated net sales for the year ended April 1, 1978 were \$64,520,000, an increase of 16% over sales of \$55,724,000 in the comparable prior year. Record sales levels were achieved by the Slater Products Division with the major part of the improvement resulting from increased volume. Burlington Steel Division sales were up 16% from the previous year, with the increase equally represented by increased volume and improved product mix. Pricing increases accounted for less than 1% of the Company's improved sales position.

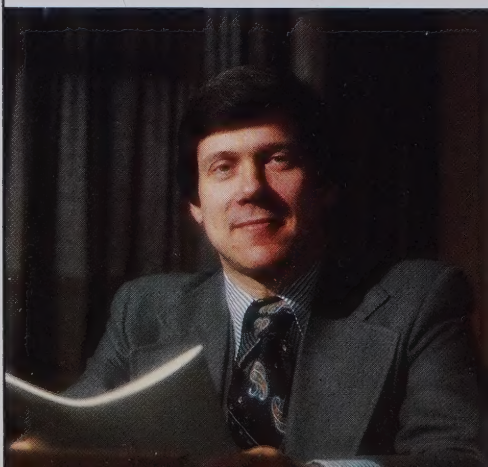
Earnings for the year were \$3,748,000, or \$1.31 per common share, an increase of 87% over comparable earnings of \$2,009,000 in Fiscal 77. This improvement resulted principally from increased participation by the Burlington Steel Division in the specialty bar market. An extraordinary loss of \$429,000, or 17¢ per common share, resulting from a charge to operations of the cost of the rod mill feasibility study, reduced final net earnings for the year to \$3,319,000, or \$1.14 per common share.

**Financial Position** Working capital increased by \$273,000 during the year despite repayment of \$2 million in term bank loans. This improvement resulted from a combination of increased earnings, reduced capital expenditures and lowered common share dividends.

Accounts receivable increased to \$11.4 million from \$8.8 million as a result of the heavier shipping levels. Inventories were down \$2.6 million to \$15.3 million at April 1, 1978 through planned reduction of both scrap and billet inventories. Due to the generally higher prices being paid for labour, materials and services, accounts payable have increased by \$1 million to \$6.8 million. Current income taxes payable have increased to \$1.5 million, compared to \$0.2 million receivable in the preceding year, as a result of the low tax base established in Fiscal 77 and resultant negligible income tax instalments required during Fiscal 78.

The ratio of current assets to current liabilities improved marginally to 2.54:1 from 2.52:1 during the year.

Wayne D. McCraney, Director-Personnel,  
Industrial & Public Relations





**Capital Expenditures** Capital expenditures continued to be restricted in Fiscal 78 amounting to \$900,000, or 40% of depreciation provided. Capital expenditures for the next fiscal year are estimated at \$1.5 million.

**Shareholders** Common shareholders' equity increased to \$17.02 per share at year-end, up 5% from \$16.16 at the end of the previous year. The majority of this increase has resulted from the improved earnings in Fiscal 78 but 36¢ was attributable to the reduced common share dividends declared during the year. Because of depressed earnings during Fiscal 77 and during the first two quarters of Fiscal 78, your Directors elected to reduce the quarterly dividend from 17¢ to 8¢ per common share. The Company's dividend policy is being reviewed pursuant to the present improved operating results and subject to evaluation of economic conditions.

**Interprovincial Steel and Pipe Corporation Ltd. (IPSCO)** Sales, as reported by IPSCO to its shareholders, for the twelve month period ended February 28, 1978 were \$154.5 million, an increase of 2% over the previous year. Earnings in the same twelve month period ended February 28, 1978 were \$9.5 million compared to \$9.9 million for the previous same period.

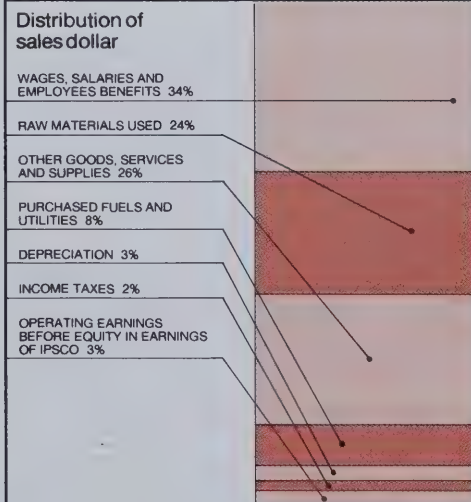
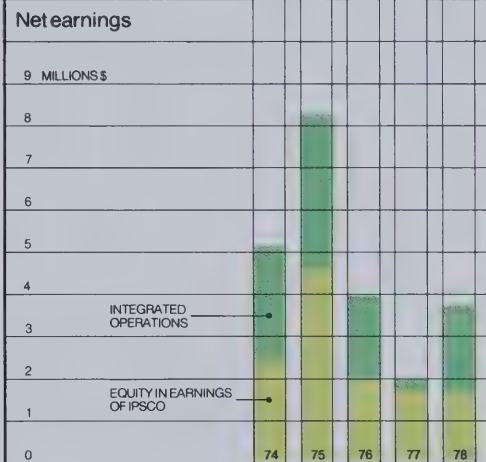
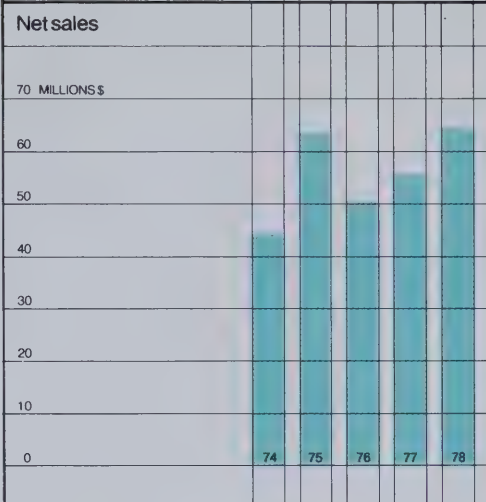
Slater Steel's equity in these earnings, which is shown in the Consolidated Statement of Earnings, amounted to \$1,683,000 for Fiscal 78 compared to \$1,757,000 last year. Dividends received were \$563,000 compared to \$282,000 in the previous year.

**Information Systems** The in-house computer system has been operating for two years and has contributed significantly to the emphasis on improved product mix for the Burlington Steel Division during Fiscal 78. In the year we developed programs for the Slater Products Hourly Payroll in order to produce more timely and informative management reports and the Burlington Steel Inventory Control System was computerized. In the coming year we will continue our development of management information reports.

**Purchasing** Although a general policy of restraint was adopted during Fiscal 1978, spiralling costs continued to be a major problem for the Purchasing Department.

David W. Albright, Secretary-Treasurer

Significant price increases were recorded for items such as hydro, gas, electrodes, refractories, aluminum, molybdenum, lead, lumber, etc. The decline in the value of the Canadian dollar also meant a significant increase in the purchase cost of imported commodities. The price of scrap fell significantly during the second and third quarters and remained at these levels until year end. While this did provide a favourable cost trend, scrap prices have now begun rising again and are expected to continue to climb moderately through Fiscal 79. The Purchasing Department is totally committed to the installation of a formal Cost Reduction and Value Analysis Program for Fiscal 79 to help further improve the profitability of both Divisions.





**Consolidated Balance Sheet** (\$000's)

Slater Steel Industries Limited

|                                                                                | As at April 1, 1978 | As at April 2, 1977 |
|--------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Current assets</b>                                                          |                     |                     |
| Accounts receivable                                                            | \$11,427            | \$ 8,787            |
| Income taxes receivable                                                        | —                   | 196                 |
| Inventories (note 3)                                                           | 15,294              | 17,928              |
| Other current assets                                                           | 463                 | 585                 |
|                                                                                | 27,184              | 27,496              |
| Investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) (note 5) | 26,120              | 25,000              |
| <b>Fixed assets (note 4)</b>                                                   | 23,905              | 25,650              |
| Other assets                                                                   | 133                 | 94                  |
| <b>Total assets</b>                                                            | <b>\$77,342</b>     | <b>\$78,240</b>     |
|                                                                                |                     |                     |
| <b>Current liabilities</b>                                                     |                     |                     |
| Bank advances                                                                  | \$ 1,446            | \$ 4,272            |
| Accounts payable and accrued charges                                           | 6,776               | 5,742               |
| Income taxes payable                                                           | 1,496               | —                   |
| Dividends payable                                                              | 296                 | 533                 |
| Deferred income taxes — current portion                                        | 305                 | 357                 |
|                                                                                | 10,319              | 10,904              |
| <b>Long term debt (note 6)</b>                                                 | 9,513               | 11,533              |
| <b>Deferred income taxes</b>                                                   | 7,298               | 7,530               |
| <b>Shareholders' equity</b>                                                    |                     |                     |
| Preference shares (note 7)                                                     | 6,255               | 6,534               |
| Common shares (note 8)                                                         | 12,428              | 12,428              |
| Retained earnings                                                              | 31,529              | 29,311              |
|                                                                                | 50,212              | 48,273              |
| <b>Total liabilities and shareholders' equity</b>                              | <b>\$77,342</b>     | <b>\$78,240</b>     |

On behalf of the Board:

G. P. Osler, Director

B. M. Hamilton, Director



## Consolidated Statement of Earnings (\$000's)

Slater Steel Industries Limited

| Year ended                                                                       | April 1, 1978   | April 2, 1977   |
|----------------------------------------------------------------------------------|-----------------|-----------------|
| <b>Net sales</b>                                                                 | <b>\$64,520</b> | <b>\$55,724</b> |
| Cost of sales, excluding the following items                                     | 57,827          | 51,876          |
| Depreciation                                                                     | 2,216           | 2,119           |
| Interest on long term debt                                                       | 959             | 1,120           |
| Other interest                                                                   | 253             | 287             |
|                                                                                  | 61,255          | 55,402          |
|                                                                                  | 3,265           | 322             |
| Income taxes (note 2)                                                            |                 |                 |
| Current                                                                          | 1,432           | (20)            |
| Deferred                                                                         | (232)           | 90              |
|                                                                                  | 1,200           | 70              |
| <b>Earnings before equity in earnings of IPSCO and before extraordinary item</b> | <b>2,065</b>    | <b>252</b>      |
| Equity in earnings of IPSCO (note 5)                                             | 1,683           | 1,757           |
| <b>Earnings before extraordinary item</b>                                        | <b>3,748</b>    | <b>2,009</b>    |
| Extraordinary item (note 12)                                                     | 429             | —               |
| <b>Net earnings for the year</b>                                                 | <b>\$ 3,319</b> | <b>\$ 2,009</b> |
| Earnings per common share                                                        |                 |                 |
| —before extraordinary item                                                       | \$ 1.31         | \$ 0.63         |
| —net earnings                                                                    | \$ 1.14         | \$ 0.63         |

## Consolidated Statement of Retained Earnings (\$000's)

Slater Steel Industries Limited

| Year ended                                          | April 1, 1978   | April 2, 1977   |
|-----------------------------------------------------|-----------------|-----------------|
| <b>Balance at beginning of year</b>                 | <b>\$29,311</b> | <b>\$29,331</b> |
| Net earnings for the year                           | 3,319           | 2,009           |
| Surplus realized on retirement of preference shares | 89              | 108             |
|                                                     | 32,719          | 31,448          |
| Dividends                                           |                 |                 |
| Preference shares                                   | 364             | 381             |
| Common shares                                       | 826             | 1,756           |
|                                                     | 1,190           | 2,137           |
| <b>Balance at end of year</b>                       | <b>\$31,529</b> | <b>\$29,311</b> |



# Consolidated Statement of Changes in Financial Position (\$000's)

Slater Steel Industries Limited

| Year ended                                                                | April 1, 1978   | April 2, 1977   |
|---------------------------------------------------------------------------|-----------------|-----------------|
| <b>Source of funds</b>                                                    |                 |                 |
| Operations                                                                |                 |                 |
| Earnings before equity in earnings of IPSCO and before extraordinary item | \$ 2,065        | \$ 252          |
| Depreciation                                                              | 2,216           | 2,119           |
| Deferred income taxes                                                     | (232)           | 90              |
| Dividends received                                                        | 563             | 282             |
|                                                                           | <b>4,612</b>    | <b>2,743</b>    |
| <b>Use of funds</b>                                                       |                 |                 |
| Net additions to fixed assets                                             | 900             | 1,672           |
| Reduction of long term debt                                               | 2,020           | 12              |
| Retirement of preference shares                                           | 190             | 186             |
| Dividends                                                                 | 1,190           | 2,137           |
| Increase (decrease) in other assets                                       | 39              | (71)            |
|                                                                           | <b>4,339</b>    | <b>3,936</b>    |
| <b>Increase (decrease) in working capital</b>                             | <b>273</b>      | <b>(1,193)</b>  |
| <b>Working capital at beginning of year</b>                               | <b>16,592</b>   | <b>17,785</b>   |
| <b>Working capital at end of year</b>                                     | <b>\$16,865</b> | <b>\$16,592</b> |

## Notes to Consolidated Financial Statements April 1, 1978

### 1. Summary of principal accounting policies

**Principals of consolidation** The Consolidated financial statements include the accounts of Slater Steel Industries Limited and its wholly owned subsidiary, N. Slater Company, Limited. The investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) is accounted for by the equity method and includes equity in undistributed earnings to February 28, 1978, based on the latest information reported to its shareholders.

**Inventories** Inventories are valued at the lower of cost and net realizable value. Inventories of Slater Products Division are recorded at standard cost and inventories of Burlington Steel Division are recorded at average cost, both systems based on current material, labour and overhead costs.

**Income taxes** Income taxes are provided on the tax allocation method and the resultant deferred income taxes are due principally to claiming depreciation for tax purposes in excess of depreciation provided. Investment tax credits are recorded in the year of the related plant or equipment expenditures by a reduction of income tax expense. The statutory 3% inventory allowance introduced during the year is recognized as a reduction in the current income tax provision in the Consolidated Statement of Earnings.

**Fixed assets** In 1961, property, plant and equipment of the Burlington Steel Division was restated to reflect depreciated replacement value as appraised by Warnock Hersey Appraisal Company Ltd. All other fixed assets, including subsequent additions to the Burlington plant, are recorded at cost. Fixed assets are depreciated at annual rates intended to write them off over their estimated useful lives.

Rates for major assets are:

Buildings 5% to 6½% straight line

Machinery and equipment 5% to 6½% straight line

Based on the latest published information issued by IPSCO, fixed assets are stated at cost and depreciation is provided at the following annual rates:

Buildings 2½% to 4% straight line

Machinery and equipment 4% to 6½% straight line

### 2. Income taxes

Income taxes have been reduced by investment tax credits of \$39,000 in 1978 and \$73,000 in 1977. The statutory 3% inventory allowance has reduced income taxes and increased net earnings by \$208,000, or 8¢ per common share.

| <b>3. Inventories (\$000's)</b> | <b>1978</b>     | <b>1977</b>     |
|---------------------------------|-----------------|-----------------|
| Raw materials and supplies      | \$ 3,898        | \$ 5,139        |
| Work in process                 | 4,129           | 5,674           |
| Finished goods                  | 7,267           | 7,115           |
|                                 | <b>\$15,294</b> | <b>\$17,928</b> |



| 4. Fixed assets (\$000's)          | 1978     | 1977     |
|------------------------------------|----------|----------|
| Land                               | \$ 3,277 | \$ 3,277 |
| Buildings, machinery and equipment | 40,349   | 40,321   |
|                                    | 43,626   | 43,598   |
| Less accumulated depreciation      | 19,721   | 17,948   |
|                                    | \$23,905 | \$25,650 |

#### 5. Investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO)

This investment in 938,400 common shares of IPSCO represents 20.2% of its issued and outstanding shares.

The total excess cost of the shares over the underlying net book value of the investment at acquisition was \$9,439,000. The equity in earnings of IPSCO is being reduced by \$236,000 per annum, an amount sufficient to amortize the total excess cost over a forty year period.

The investment is stated at cost as so reduced, plus equity in undistributed earnings since date of acquisition.

| 6. Long term debt (\$000's)                       | 1978     | 1977     |
|---------------------------------------------------|----------|----------|
| Sinking fund debentures                           |          |          |
| 6% Series A due January 1, 1982                   | \$ 321   | \$ 329   |
| 6¼% Series B due February 15, 1983                | 544      | 556      |
| 5½% Series D due May 15, 1984<br>(U.S. \$600,000) | 648      | 648      |
| Term bank loans                                   | 8,000    | 10,000   |
|                                                   | \$ 9,513 | \$11,533 |

Sufficient debentures have been purchased for cancellation to eliminate the sinking fund requirements over the next five years except for \$64,000 due in 1982 on the Series B and the redemption requirements on the Series A and Series B debentures at maturity.

Term bank loans bearing interest at rates of ½% above the lenders' prevailing prime commercial rates are due on April 15, 1981.

#### 7. Preference Shares (\$000's)

Authorized and outstanding — 312,751 shares (1977 — 326,713 shares) of \$20 par value each redeemable at par

|                                                                                 | 1978     | 1977     |
|---------------------------------------------------------------------------------|----------|----------|
| 56,845 shares (1977 — 60,030) 5½% cumulative redeemable, \$1.10 Series          | \$ 1,137 | \$ 1,201 |
| 125,191 shares (1977 — 130,762) 5½% cumulative redeemable, \$1.10 Second Series | 2,504    | 2,615    |
| 130,715 shares (1977 — 135,921) 6% cumulative redeemable, \$1.20 Series         | 2,614    | 2,718    |
|                                                                                 | \$ 6,255 | \$ 6,534 |

During the year the Company purchased for cancellation 3,185 \$1.10 Series, 5,571 \$1.10 Second Series and 5,206 \$1.20 Series preference shares for \$190,000. The Company has met its obligations with respect to the purchase fund requirements attached to the preference shares.

#### 8. Common shares

Authorized — 4,000,000 shares without par value, of which 2,582,332 are issued.

#### 9. Anti-inflation program

The Company is subject to controls over prices, profit margins, compensation and dividends under the Anti-Inflation Act which is scheduled to be in force until December 31, 1978.

#### 10. Remuneration of directors and senior officers

The aggregate remuneration paid or payable to the directors and senior officers of the Company was \$313,000 (1977 — \$373,000).

#### 11. Pension plan liability

Pension costs charged against earnings in the year include payment made to trust funds for current and past service requirements as determined by independent actuarial estimates. Unfunded past service costs, not included in the financial statements, amount to \$8,153,000 at April 1, 1978. This amount will be funded and charged to operations over a period ending in 1991, in annual instalments as determined by an independent actuary.

#### 12. Extraordinary item

Costs of the rod mill feasibility study conducted during 1975 and 1976 amounting to \$429,000 have been charged to operations.

#### 13. Commitment

In August 1975 the Company entered into an agreement to purchase fixed quantities of pre-reduced iron pellets each year over a period from October 31, 1976 to December 31, 1980. These pellets were to be purchased at a price governed by a cost formula set out in the agreement. At present, the purchase price of these pellets would substantially exceed the cost of alternative raw materials. The terms of this agreement were re-negotiated with the supplier in February 1978. Under the modified contract, the Company has agreed to an annual penalty payment of \$810,000, in lieu of accepting pellets, payable in quarterly instalments of \$202,500 from January 1, 1978 to December 31, 1980. The first payment of \$202,500 covering the quarter ended April 1, 1978 has been included in cost of sales in the Consolidated Statement of Earnings.

## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Slater Steel Industries Limited as at April 1, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 1, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand, Chartered Accountants  
May 3, 1978, Hamilton, Ontario



## Five Year Review

|                                                                   | 1978     | 1977     | 1976     | 1975     | 1974     |
|-------------------------------------------------------------------|----------|----------|----------|----------|----------|
| <b>Sales and earnings (\$000's)</b>                               |          |          |          |          |          |
| Net sales                                                         | \$64,520 | \$55,724 | \$50,288 | \$63,846 | \$44,242 |
| Income taxes                                                      | 1,180    | 70       | 1,292    | 2,775    | 1,715    |
| Earnings before equity in earnings of associated company (note A) | 2,065    | 252      | 1,906    | 3,633    | 2,695    |
| Equity in earnings of IPSCO                                       | 1,683    | 1,757    | 2,044    | 4,603    | 2,417    |
| Net earnings (Note A)                                             | 3,748    | 2,009    | 3,950    | 8,236    | 5,112    |
| Capital expenditures                                              | 900      | 1,672    | 3,277    | 4,945    | 2,142    |
| Depreciation                                                      | 2,216    | 2,119    | 1,990    | 1,711    | 1,437    |
| Cash generated from operations (note B)                           | 4,612    | 2,743    | 5,130    | 6,423    | 6,663    |
| <b>Year end position (\$000's)</b>                                |          |          |          |          |          |
| Working capital                                                   | 16,865   | 16,592   | 17,785   | 8,354    | 9,800    |
| Fixed assets—net                                                  | 23,905   | 25,650   | 26,097   | 24,810   | 21,576   |
| Total assets                                                      | 77,342   | 78,240   | 76,058   | 72,543   | 58,696   |
| Long term debt                                                    | 9,513    | 11,533   | 11,545   | 1,653    | 1,653    |
| Common shareholders' equity                                       | 43,957   | 41,739   | 41,759   | 39,853   | 33,705   |
| <b>Per common share data</b>                                      |          |          |          |          |          |
| Earnings (note A)                                                 | 1.31     | .63      | 1.38     | 3.03     | 1.81     |
| Dividends declared                                                | .32      | .68      | .68      | .68      | .68      |
| Shareholders' equity                                              | 17.02    | 16.16    | 16.17    | 15.43    | 13.05    |
| <b>Other statistics</b>                                           |          |          |          |          |          |
| Number of employees                                               | 1,041    | 1,103    | 991      | 1,202    | 1,242    |
| Number of shareholders                                            | 5,818    | 5,838    | 6,141    | 6,341    | 6,361    |

Note A. In addition to the net earnings reported above, the Company recorded an extraordinary loss of \$429,000, or 17¢ per common share, covering the cost of the rod mill feasibility study charged to operations in 1978.

Note B. Cash generated from operations consists of net earnings before extraordinary gains or losses, including dividends received, plus depreciation and deferred income taxes.

## Slater Steel Industries Limited

### Directors

Dr. Arthur N. Bourns  
President and Vice Chancellor, McMaster University

J. Michael Edwards  
Managing Director, British Steel Corporation (International) Ltd.

Bruce M. Hamilton\*  
President of the Corporation

Douglas C. Marrs†  
President and Chief Executive Officer, Westinghouse Canada Limited

Richard C. Meech, Q.C.\*†  
Partner, Borden & Elliot

Gordon P. Osler\*  
Vice Chairman and Chief Executive Officer, British Steel Corporation (Canada) Limited, Chairman of the Corporation

Norman B. Preece\*†  
President, Stanton Pipes Limited

Michael K. Robinson  
Senior Co-Ordinator—Overseas Investments, British Steel Corporation (International) Ltd.

\*Member of Executive Committee of the Corporation  
†Member of Audit Committee of the Corporation

### Officers

Gordon P. Osler, Chairman of the Board  
Bruce M. Hamilton, President  
David W. Albright, Secretary-Treasurer  
Darrold A. Toner, Comptroller

### Officers of Burlington Steel Division

Ronald B. Wilson, Executive Vice President  
John F. Miles, Vice President-Manufacturing

### Officer of Slater Products Division

John H. Taylor, Vice President-General Manager

### Corporate Offices

Slater Steel Industries Limited  
681 King Street West, P.O. Box 271, Hamilton, Ontario. L8N 3E7

### Divisions

Burlington Steel Division  
319 Sherman Avenue North, P.O. Box 271, Hamilton, Ontario. L8N 3E7

Slater Products Division  
681 King Street West, P.O. Box 271, Hamilton, Ontario. L8N 3E7

### Associated Company

Interprovincial Steel and Pipe Corporation Ltd.  
P.O. Box 1670, Regina, Saskatchewan. S4P 3C7

### Registrar & Transfer Agents

Montreal Trust Company, Toronto, Montreal, Vancouver, Winnipeg

### Listed

Toronto Stock Exchange

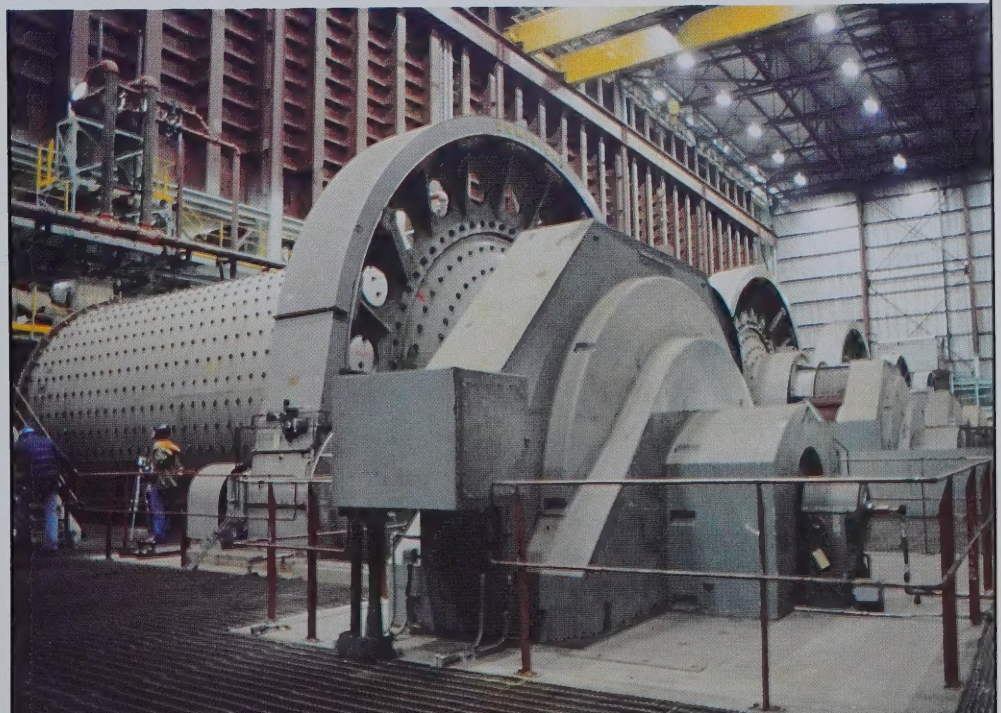
### Auditors

Coopers & Lybrand, Chartered Accountants





British Steel Corporation (International) Ltd. which holds 50.2% of the issued common shares of Slater Steel Industries Limited, has a 41.7% investment in Sidbec-Normines Inc., which includes an iron ore mine at Fire Lake (top), a beneficiating operation at Gagnon and a pelletizing facility at Port Cartier, all located in the Province of Quebec. Semi-autogenous Ball Mills (right) located within the pelletizing plant uses 1½" grinding balls supplied by Burlington Steel.





**Slater Steel Industries Limited**

681 King Street West, P.O. Box 271, Hamilton, Ontario L8N 3E7